

46A-WF-179870 SUB RR
CWS/cws

The following investigation was conducted by SA [redacted]
[redacted] at Falls Church, Virginia:

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U.S. DEPARTMENT OF JUSTICE (DOJ) Attorney [redacted] recently advised that a criminal investigation was opened concerning improprieties at failed Arkansas financial institution MADISON GUARANTY SAVINGS & LOAN (MGSL). Among the allegations were that MGSL officials approved overdrafts for the purpose of making contributions to the Presidential election campaign of BILL CLINTON. There were also allegations that proceeds from loans intended for other purposes were used to make contributions to CLINTON's campaign. JAMES B. MC DOUGAL, the owner of MGSL, was a longtime friend and business partner of BILL and HILLARY CLINTON. MC DOUGAL and the CLINTON's participated in a venture named WHITEWATER DEVELOPMENT CORP. that developed land in the Ozark Mountains. One copy of a 10/31/93 WASHINGTON POST newspaper article regarding the investigation is attached for incorporation herein.

[redacted] requested that SA [redacted] review the [redacted] records pertaining the account of [redacted] to determine whether [redacted] had any relationship with MGSL. On 12/16/93, SA [redacted] reviewed data concerning all cleared checks written against [redacted] account. No checks were made payable to MGSL. SA [redacted] also reviewed data regarding all deposits made into [redacted] account. None of the deposits were able to be identified as having any connection with MGSL. Additionally, SA [redacted] reviewed the entire summary of analysis of [redacted] account for any references to MGSL. No references to MGSL were found. Based on SA [redacted] review, it appears that [redacted] did not have any relationship with MGSL that is discernible through his [redacted] account.

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46A-WF-179870 Sub RR-5

U.S. Is Asked to Probe Failed Arkansas S&L

RTC Questions Thrift's Mid-'80s Check Flow To Politicians, Clinton Reelection Campaign

By Susan Schmidt
Washington Post Staff Writer

The Resolution Trust Corp. has asked federal prosecutors in Little Rock to open a criminal investigation into whether a failed Arkansas savings and loan used depositors' funds during the mid-'80s to benefit local politicians, including a reelection campaign of then-governor Bill Clinton.

About three weeks ago, the RTC forwarded to U.S. Attorney Paula Casey in Little Rock information about 10 matters arising from transactions at the now-defunct Madison Guaranty Savings & Loan that warrant criminal investigation, according to government sources familiar with the probe. A written summary of the referral has been sent to the Justice Department, according to sources.

The package includes questions about whether a series of checks

written on Madison accounts ended up in Clinton's campaign fund. The sources said there is no indication Clinton had personal knowledge of or involvement in the transactions, and the White House said yesterday there would be no way Clinton would have known if money from Madison accounts had been improperly used to make campaign contributions.

The RTC request, based on a broad probe of the S&L's financial affairs, also asks for further federal investigation of Madison's dealings with current Arkansas Gov. Jim Guy Tucker (D), the sources said.

Tucker's companies borrowed more than \$1 million from the S&L for real estate and other ventures during the mid-1980s, when he was at a law firm that represented Madison. Some of the loans were made on what appear to be favorable terms

See RTC, A14, Col. 1

and caused large losses to the S&L. Tucker's office did not respond to requests for an interview.

The RTC, which disposes of S&Ls, took over Madison after its 1989 failure, expected to cost taxpayers an estimated \$47 million.

In examining the Madison transactions, the RTC has asked Casey to determine whether checks to the Clinton campaign were paid from overdrawn accounts with the authorization of Madison's owner, James B. McDougal, or whether Madison loans intended for other purposes were used for campaign contributions. McDougal is a longtime friend and business partner of Bill and Hillary Rodham Clinton and was an economic development aide during Clinton's first term as governor.

In an interview, McDougal said he had no knowledge of any Madison funds being used improperly. "I never approved an overdraft in the entire time I was down there," he said.

Clinton aide Bruce Lindsey said yesterday that McDougal helped organize an April 1985 fund-raiser to pay off Clinton's 1984 campaign debts. Lindsey said he does not know how much was raised during the fund-raiser and does not have the state campaign records, which are routinely discarded after five years. But he said he had seen a deposit slip noting that McDougal contributed \$3,000, which was not in excess of campaign limits at the time.

Lindsey said he understands that the RTC is questioning the "source of funds" for that check and perhaps others.

"How in the world would we have any knowledge of that?" Lindsey said. "Where the funds came from for that check—there's absolutely no way we would know or have questioned that."

RTC investigators have examined irregular Madison transactions that took place in April 1985 and have attempted to find out who endorsed and deposited a series of checks made out to Clinton or the gubernatorial campaign, one source familiar with the probe said. Lindsey said it would not be unusual for campaign contributors to make out checks in Clinton's name—and that was done by some at the 1985 fund-raiser—but that those checks would be placed in the campaign fund, which was maintained at Arkansas' Bank of Cherry Valley.

Failed Arkansas S&L's Political Ties Questioned

RTC, From A1

RTC investigators have been unable to secure bank records that would show where money from the checks went, the sources said.

The RTC takes the step of referring cases to law enforcement agencies when its own investigation of a failed S&L's books and loan files raises "aggravated suspicion" of possible criminal activity. Referrals are often made to the FBI or the Justice Department on limited evidence. The RTC has limited subpoena powers and no authority to bring criminal cases itself.

Sources familiar with the Madison referrals said Casey's office will have to evaluate whether transactions dating back to the mid-'80s warrant criminal investigation. Casey declined to comment.

RTC spokesman Steve Katsanos would neither confirm nor deny whether the agency asked Casey to further investigate Madison. "We have found Madison to be a very interesting institution and we conduct investigations in cases of all failed S&Ls," he said.

Sources said that the RTC also asked Casey to investigate whether McDougal had violated S&L regulations. He was acquitted of bank fraud in 1990 in a case that focused on bonuses and profits he earned for real estate deals involving the development subsidiary, Madison Financial Corp.

The RTC action comes after a long-running probe of Madison that

began soon after the S&L was taken over by federal regulators. Before it was taken over, regulators were critical of Madison's management, contending it permitted conflicts of interest, inflated real estate appraisals, and unsupported loan documentation and that it failed to collect debts, state records show.

The RTC probe intensified about a year ago as investigators examined loans and financial transactions involving a small group of borrowers, including some S&L officers and directors and local politicians who were Madison customers.

As part of the investigation, the RTC went to extraordinary lengths to trace real estate transactions involving Whitewater Development

Corp., a land company Bill and Hillary Clinton jointly owned with McDougal and his former wife, Susan McDougal, according to government sources. The corporation maintained an account at Madison, and sources said Whitewater's activities are among the matters referred to Casey for further investigation.

Whitewater, which the Clintons have described as a money-losing venture that developed land in the Ozark Mountains, was formed in 1978.

There was protracted debate within the RTC about whether Madison transactions involving the Clintons should be included in documents sent to Casey, because the investigation focuses primarily on

the handling of S&L funds by Madison officials, sources said.

The RTC's investigators who are based in Kansas City were prepared to forward the information earlier this fall, but the decision to send the referrals on was not made until early October, the sources said.

Madison, which grew from a tiny Arkansas thrift into a bustling institution during McDougal's years there, has surfaced before as an issue for Clinton. During his presidential campaign last year, he was faced with questions about whether his administration in Arkansas gave favorable treatment to the troubled S&L in the mid-1980s when it was seeking state permission for new ways to raise money.

Hillary Clinton, then a lawyer with the influential Rose law firm of Little Rock, acted as an attorney for Madison when it went before the State Securities Commission in 1985. An issue was raised during Clinton's 1992 presidential campaign about whether her work for the S&L was a conflict of interest. She said her legal work had been minimal.

Controversy also arose during the 1992 campaign over Whitewater's finances. Press investigations of Madison showed that Susan McDougal's advertising firm, which was associated with Madison, deposited money in Whitewater's account at the S&L to cover an overdraft.

Under intense media scrutiny, Denver lawyer James Lyons was retained by the campaign to do a report on Whitewater's business dealings and he found the Clinton's lost money on the investment and had done

nothing improper. Officials said they could not locate many of the records that might answer questions about the transactions.

Tucker, a former congressman and state attorney general, was involved in a number of Madison loans, which went to fund small real estate deals, Tucker's cable television company and major industrial projects.

Madison loaned one of Tucker's companies, Castle Water and Sewer, more than \$1 million. His company was to provide service to the Castle Grande mobile home park, a Madison Financial Corp. development near Little Rock, but the S&L ended up losing \$861,000 on the loan, the RTC said in an 1990 court document.

Staff writers Michael Isikoff in Washington and Howard Schneider in Little Rock contributed to this report.

Parsons
 1 - Mr. CA Evans
 1 - Mr. Rosen
 1 - Name Check Section
 1 - Mr. Menzel

May 9, 1961

May 9 1 58 PM '61
 REC'D-READING ROOM
 FBI

Honorable John L. McClellan
 Chairman
 Senate Permanent Subcommittee
 on Investigations
 Washington, D. C.

My dear Mr. Chairman:

Reference is made to your letter dated May 1, 1961, requesting a name check concerning Mr. James B. McDougal.

The FBI has not conducted an investigation of and the files of this Bureau reveal no pertinent identifiable information concerning Mr. McDougal.

Sincerely yours,

J. Edgar Hoover

NOTE: No arrest record, Identification Division, on the basis of a name check per [redacted] 5/8/61.

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MAILED 25

MAY 9 - 1961

COMM-FBI

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 Parsons _____
 Mohr _____
 Belmont _____
 Callahan _____
 Conrad _____
 DeLoach _____
 Evans _____
 Malone _____
 Rosen _____
 Tavel _____
 Trotter _____
 W.C. Sullivan _____
 Tele. Room _____
 Ingram _____
 Gandy _____

MAIL ROOM ☐ TELETYPE UNIT ☐

67 MAY 15 1961

Federal Bureau of Investigation
Records Branch

5/8

, 1961

☐ Name Searching Unit - Room 6527☐ Service Unit - Room 6524☐ Forward to File Review☐ Attention ☐☒ Return to ☐

Supervisor

Room

Ext.

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Type of References Requested:

☐ Regular Request (Analytical Search)☒ All References (Subversive & Nonsubversive)☐ Subversive References Only☐ Nonsubversive References Only☐ Main _____ References Only

Type of Search Requested:

☐ Restricted to Locality of _____☐ Exact Name Only (On the Nose)☐ Buildup☐ Variations

Subject

Mc Aleigh, James B.

Birthdate & Place _____

Address _____

Localities _____

R# _____

Date

5/8

Searcher
Initials

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Prod. _____

FILE NUMBER

SERIAL

NRI

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DONALD F. O'DONNELL
ACTING CHIEF COUNSEL

United States Senate

COMMITTEE ON
GOVERNMENT OPERATIONS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
(PURSUANT TO S. RES. 69, 87TH CONGRESS)

May 1, 1961

Mr. Tolson	✓
Mr. Parsons	✓
Mr. Mohr	
Mr. Belmont	
Mr. Callahan	
Mr. Conrad	
Mr. DeLoach	
Mr. Evans	
Mr. Malone	✓
Mr. Rosen	✓
Mr. Tavel	
Mr. Trotter	
Mr. W.C. Sullivan	
Tele. Room	
Mr. Ingram	
Miss Gandy	

Honorable J. Edgar Hoover
Director,
Federal Bureau of Investigation
Washington 25, D.C.

Dear Mr. Hoover:

NAME checks

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James B. McDougal, who was born August 25, 1940 in Bradford, Arkansas, is being considered for a position by the Senate Permanent Subcommittee on Investigations of the Committee on Government Operations. His parents, Leo M. and Lorene McDougal, reside in Bradford, Arkansas. Mr. McDougal has not yet established a residence in Washington, D.C.

It would be appreciated if you would check his name against your files and advise us whether they contain any information bearing upon his loyalty, character or integrity.

Sincerely yours,

John L. McClellan
John L. McClellan
Chairman

am

MAY 4 1961

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Memorandum from [] to []
Re: Mozark

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DETAILS CONTINUED:

used his company to defraud the Small Business Administration (SBA) of millions of dollars in funding. Hale's company, Capital Management Services, Inc., was a Small Business Investment Company (SBIC) which obtained funding from the SBA. For informational purposes, the SBA grants the status of SBIC to those companies filing for it. The purpose of the SBIC is to lend money to disadvantaged minority companies. For every dollar of investment money raised by the SBIC, the SBA will match it \$3 to \$1. The investor will receive a return on his capital and also a tax deduction of 36 percent of the investment.

The basic scheme used by Hale and associates to defraud the SBA was to obtain "investment" money from friends and associates. Hale would then present this money to the SBA as new investment money and request up to the \$3 to \$1 match. When Hale received the money from the SBA, he would return the "seed" money back to his "investors." In order to obtain the SBA money, Hale made various false statements and false representations to the SBA.

On 9/24/93, David Hale and two other co-conspirators were indicted by a Federal Grand Jury in Little Rock on charges of defrauding the SBA. After Hale learned he was to be indicted he claimed to the press that President Clinton; []; and James McDougal, Madison Guaranty Savings and Loan (MGSL), pressured him to use his SBIC to improve the financial position of MGSL by lending SBIC money to those individuals who owed money to the savings bank. These individuals, most of them friends of McDougal, then used the SBIC money to pay back the loans at the savings bank.

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Hale claims that a \$300,000 loan was made to Susan McDougal, some of the money went to pay back a personal loan/business loan of President and Mrs. Clinton at MGSL. This transaction related to a business venture of the Clintons and McDougals named White Water Development (WWD). These allegations have led to massive press coverage of this matter regarding the Clintons involvement in WWD and other financial dealings of the Clintons, McDougals, and other prominent business leaders in Arkansas.

(CONTINUED - OVER)

Memorandum from [] to []
Re: Mozark

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DETAILS CONTINUED:

In January 1994, Attorney General Reno appointed Robert Fiske as a Special Counsel to handle captioned matter. Mr. Fiske has requested FBI support for this investigation. To date, 15 agents, six financial analysts, one secretary and two clerks have been assigned to this special. Mr. Fiske has assigned seven attorneys and two paralegals to assist in the handling of this investigation. Mr. Fiske has brought his personal secretary to handle legal matters. Due to the number of FBI resources assigned to captioned investigation, Little Rock is in need to two typists to handle the typing of the investigation being conducted.

CID has reviewed this request, discussed the need for these requests with Little Rock, and concurs with the SAC's request for these TDY personnel.

Due to the extreme sensitivity of this matter as well as the urgency in this request, it is requested that this matter be handled on an expedited basis. Any problems or questions should be discussed with Supervisory Special Agent [], Governmental Fraud Unit, Extension [].

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Exec AD Adm. _____
 Exec AD Inv. _____
 Exec AD LES _____
 Asst. Dir.:
 Adm. Servs. _____
 Crim. Inv. _____
 Ident. _____
 Insp. _____
 Intell. _____
 Lab. _____
 Legal Coun. _____
 Off. Cong. &
 Public Affs. _____
 Rec. Mgnt. _____
 Tech. Servs. _____
 Training _____
 Telephone Rm. _____
 Director's Sec'y _____

Bipartisan Probe of Arkansas S&L Ruled Out

Republicans on House Banking Panel Pursue Case With Clinton Links

By Susan Schmidt
 Washington Post Staff Writer

The Democratic chairman of the House Banking Committee has changed his mind and decided not to participate in a congressional investigation of a failed Arkansas savings and loan with ties to President Clinton that is now under scrutiny by the Justice Department.

Last month, at the request of Republicans on the Banking Committee, Rep. Henry B. Gonzalez (D-Tex.) said that the committee staff would conduct a bipartisan investigation of Madison Guaranty Savings & Loan of Little Rock. Madison's former owner, James B. McDougal, was a partner in a land development company with Clinton and Hillary Rodham Clinton.

Rep. Jim Leach (Iowa), the committee's ranking Republican, said

GOP committee members intend to go forward with the investigation, and letters to various state and federal regulatory agencies were sent out late last week over his signature.

In a four-page letter to Gonzalez, Leach raised a dozen issues relating to Madison that he said merit congressional scrutiny, including allegations under review by the Justice Department that S&L funds may have been used for political purposes.

Gonzalez, in a statement released by his office, said that Madison officials "may have engaged in illegal activities, but those matters are most appropriately addressed by the Justice Department and the bank regulators, not the committee. In fact, the Justice Department is already actively pursuing a criminal inves-

tigation, and several banking agencies are determining whether they can file civil suits."

In a letter to Leach, Gonzalez said the circumstances at Madison do not raise legislative issues, and he said he would not permit "Republican political operatives" to use the committee to conduct "a purely political fishing expedition."

The Washington Post ☒ _____
 The Washington Times _____
 Daily News (New York) _____
 The New York Times _____
 The Wall Street Journal _____
 The Chicago Tribune _____
 The Los Angeles Times _____
 The Christian Science Monitor _____
 USA Today _____

Date 12-14-93

Page _____ FBI/DOJ

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